DG ENER stakeholder webinar on EC options for emergency price mitigation measures

Eurelectric written input to guiding questions

April 2022

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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Eurelectric warmly welcomes the Commission's decision to consult stakeholders in a dedicated webinar on 26th April and is pleased to share the views of the European power sector regarding the recent Communication "Security of supply and affordable energy prices: Options for immediate measures and preparing for next winter".

In addition to our intervention in the webinar, please find below our input on a written basis to the proposed guiding questions.

1.To what extent do the short-term options listed above contribute to reducing gas prices and their impact on electricity markets?

- **Option 6 (i.e. cap on wholesale gas prices) addresses the root causes of the current energy price crisis (e.g. high gas prices) as referred to in Eurelectric's Presidential Statement "Reducing Europe's fossil fuel dependence".** This is therefore the option that can result in more manageable gas prices and therefore lead to a short-term reduction of the costs of electricity generated by gas-fired power plants. However, the direct impact of such measure on electricity markets depends very much on the level of the cap:
    - **If set too high, it has a limited impact on the wholesale electricity price levels and therefore has an uncertain impact on decoupling of gas & electricity prices.**
    - **If set too low, it can lead to severe risks in terms of the security of supply of gas flows**. It must therefore be combined with 1) a LNG tendering mechanism as a short-to-mid-term balancing tool to avoid potential risk of supply disruption, and 2) a compensation system that covers the difference between the cap and the market price of e.g. LNG.

- **However, like any options implying putting a cap on energy prices, it will lead to severe market distortions** (especially if implemented in an uncoordinated manner), as there is no free price signal anymore. **All options should therefore be carefully assessed as often the costs and the market disruption potentialities are much greater than the benefits.**

- **Eurelectric is supporting option A1 (targeted interventions at retail level) as the most cost-effective and least market distortive one** to protect customers against energy price peaks.

- Nevertheless, if, **as a last resort, any other intervention is needed, then:**
    - **It must be harmonized at EU level** to avoid market fragmentation. It is relevant to say that national and regional interventions and exceptions should not be allowed as they destroy the integrity of the market itself

- **It must be temporary**.
- **It should, to the largest possible extent, address the root causes of the current energy price surge** (which is the high wholesale gas price), as we refer to in Eurelectric's Presidential Statement on reducing Europe's fossil fuel dependence
- **It must not overlap with existing intervention measures** (e.g. combination of price caps and claw back mechanisms)
- **And, in any case, stakeholders should be consulted before any implementation**, to minimize the risks of market distortions and postponing the energy transition.

2. Which options provide direct relief to end-consumers and companies?

- It is essential to properly address **the question of energy affordability for customers, speed up energy efficiency and flexibility measures and ensure the social acceptance of the energy transition.**

- Eurelectric, as many stakeholders who participated in the webinar, is firmly convinced that direct relief to end-consumers and companies can be done by **prioritizing measures that mitigate the impact of high energy prices without distorting the market,** as recommended in the initial Toolbox Communication, in October 2021**, through targeted support for the consumers that actually need it** (e.g. option A1 – not considering the single buyer model).

- Indeed, **not all consumers are exposed to the high electricity prices** observed on the day-ahead electricity market. A relevant share of consumers is indeed still protected under fixed prices negotiated before. Those affected are the ones with prices indexed to spot markets or that faced a contract renewal in this context. **And from those exposed, not all are at the same level of vulnerability or loss of competitiveness.**

- **Social policies, tax reduction, redistribution of tax revenues, vouchers, etc. allow targeting only the consumers really in need,** which clearly makes option A1 the most cost-effective option**.**

3. Which options are best aligned with the EU's decarbonisation objectives?

- **All the options affecting the functioning of the internal energy market will have a distortive impact on the energy markets, thus risking of slowing down needed long-term investments as they hinder investors' confidence.** This phenomenon risks having in turn a **negative impact on the capability to achieve the EU's decarbonisation objectives.**

- **Option A1** (targeted interventions at retail level, not considering the aggregator model) **is the less distortive** which means also the one that **can better ensure the continuity of the EU's decarbonisation goals.** Nevertheless, it is crucial to **integrate it with energy efficiency measures** since options that decrease or subsidise energy prices risk having an impact on the consumers' behaviours

- **Generally considering the Communication options, a specific attention on energy efficiency and demand-side flexibility is missing** while, as shared by other stakeholders as well, these instruments are readily available now and have an unexploited potential.

4. Which options are least costly? Who, in your view, should bear the costs?

- **Any intervention must be based on a sound cost-benefit analysis, and an adequate allocation of these costs across taxpayers or consumers to avoid cross-subsidization.**

- **Targeted measures to support consumers through financial compensation are more cost-effective**, as they allow to target those really in need of protection, instead of a wide range of interventions in the wholesale markets, which would only benefit some consumers, at the expense of higher costs and introduce several distortions in the market. **Such measures should be financed preferably by using higher than expected ETS revenues, and energy taxation revenues from State budgets.**

- **Recent proposed interventions in the markets failed to adequately quantify the benefits and the costs.** Not only "reducing" the wholesale spot price doesn't benefit all consumers, but in some proposals, the costs tend to be paid by consumers that don't benefit at all because they previously hedged their energy prices (a prudent behavior that seems to turn out to being to a disadvantage for those consumers), hence there is a big risk of cross-subsidisation.

- Similarly, the **discussions around the so-called "windfall" profits are often focusing only on spot prices and do not consider hedging at all, while this is a common practice both for generation and supply activities.** It must be clear that high wholesale electricity spot prices do not mean high revenues for generators, since generators sold the majority of their production ahead (at "forward" prices). And the same applies to a significant share of suppliers that purchase ahead to supply their consumers under fixed price commitments.

5. Which options best avoid risks for security of supply?

- **The energy transition towards decarbonization is still the way to go**, as it will reduce energy dependence on external suppliers but also contribute to decrease energy prices in the long run. So, any measure taken in the short term should not lose sight of this.

- **The situation also calls for urgent measures to face the current risk of disruption in gas supply,** namely through the moderation of gas demand and robust contingency plans for the security of supply in both electricity and gas.

- **In that context, electrification (and hydrogen for hard-to-abate sectors) is the optimal solution to decarbonization, while reducing energy dependency** with a renewable and carbon-neutral mix in electricity, fully carbon-neutral well before 2050.

6. Which options best avoid distortions in the internal energy market?

- **The problem is not on the wholesale electricity short-term market which is working as it should, given the current context** (as highlighted in ACER's preliminary power market assessment and the EC Toolbox Communication). **The real problem to address is affordability for those consumers exposed and that are in need for protection.**

- From the range of options presented by the Commission, on the Communication from the 23rd of March, **option A1 (targeted interventions at retail level) is clearly the most cost-effective and less distortive option,** as it directly targets customers that need support and does not affect the functioning of energy markets.

- As shown in the webinar, **the potential for disruption of the wholesale market & the risk of locking-in those distortions in the long-term internal energy markets are shared concerns among the energy stakeholders, NGOs, and scholars.** For this reason, we invite the Commission to carefully assess this aspect which could undermine several years of work to build the EU energy market that we have today and some measures could ultimately be in place longer than initially expected. The most market distortive option of all is certainly option 4 (e.g. price cap on wholesale electricity prices) as it directly interferes with price signals for short-term dispatching, and even more if implemented in an uncoordinated way.

- **We are very concerned with the precedent set with the approval of the "Iberian proposal" and the destructive effects in the market integrity, efficiency and in the investors' confidence.** The distortionary effects of such proposal raised concerns from several stakeholders during the webinar, which we share. The question is now how the contagion effect to other countries will be handled by the Commission and how confidence in the internal energy market could be restored for operators and investors.

7. Which options help to reduce the EU's dependence on imported fossil fuels?

- **As mentioned before, electrification (complemented with hydrogen for hard-to-abate sectors) is the way to go towards decarbonization** while reducing energy dependency with a carbon-neutral mix target way before 2050.

- **This path requires proper investments.** As stated by many stakeholders, **throughout this process, guarding investors' confidence is crucial.** Possible disruption of the market or proposed clawback mechanisms are breaking investors' confidence and severely endangering needed investments towards decarbonisation.

- **As a complement to electrification, energy efficiency** and the further **development of renewable and low-carbon gases,** to which the electricity sector could also contribute (e.g. renewable H2 from electrolysis) and benefit from (e.g. as supply for gas-fired units ensuring flexibility and security of electricity supply)**, will also be instrumental in reducing the EU's dependence on imported fossil fuels.**

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

Growth, added-value, efficiency

Environmental Leadership

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